

DELAWARE HEALTH FACILITIES AUTHORITY

Minutes of Meeting

of

May 7, 2013

A Meeting of the Delaware Health Facilities Authority (the “Authority”) was held after proper notice at 1:00 p.m., May 7, 2013, in the offices of Potter Anderson & Corroon LLP at 1313 N. Market Street, Wilmington, Delaware.

In attendance were Authority Members:

Rolf F. Eriksen (Chair)
Desmond A. Baker
George W. Forbes, III
Lisa More
William G. Neaton
Howard A. Palley, Ph.D.
William J. Riddle

Also in attendance were:

John J. Quinn, III, Esquire, Counsel to the Authority
Lynne E. McElwee, of Potter Anderson & Corroon LLP
Emily Abrantes, Public Financial Management (Authority’s Financial Advisor)
 (“PFM”)

In attendance in connection with the Nanticoke Memorial Hospital, Inc. (“NMH” or “Nanticoke”) Application for Revenue Bond Financing were:

Steven A. Rose, NMH, President / CEO
Denise W. Jester, NMH, Chief Financial Officer
Cynthia D. Kaiser, Esq., Richards, Layton & Finger, P.A., Borrower’s Counsel
Emilie Ninan, Esq., Ballard Spahr LLP, Bond Counsel
Sana M. Din, Esq., Ballard Spahr LLP, Bond Counsel
John Cheney, Ponder & Co., Borrower’s Financial Advisor
Donald Persinski, PNC Capital Markets, LLC, Underwriter

No members from the general public appeared during the course of the meeting.

After preliminary introductions, Mr. Eriksen, Chair, called the meeting to order at 1:30 p.m. and noted that the meeting is open to the public.

Consideration of the Nanticoke Memorial Hospital, Inc.
Application for Revenue Bond Financing

The public hearing was then opened with respect to the request by NMH to the Authority to issue revenue bonds in the aggregate principal amount not to exceed \$50,000,000.

Mr. Eriksen asked those in attendance to introduce themselves, and introductions commenced.

The Hospital and its advisors and the Authority Members participated in presentations and discussions regarding details of the NMH Application. In particular, presentations of information and leading of discussions were made and done on behalf of NMH by Ms. Ninan, Mr. Rose, Ms. Jester, Mr. Persinski, and Mr. Cheney.

In the course of the discussions, Mr. Eriksen asked Ms. Ninan to explain the Application and the proposed bonds. Ms. Ninan stated that this is a refinancing transaction using fixed-rate bonds sold publicly.

Mr. Eriksen asked Mr. Rose for NMH's overview of the Application. Mr. Rose stated that Nanticoke is made up of 2 components: Nanticoke Hospital ("Hospital") and Nanticoke Physicians Network. Recently, Nanticoke sold its nursing home facility due to a decrease in its profits. The Physicians Network and the Hospital are symbiotic. Accordingly, Nanticoke has been recruiting physicians. Nanticoke now has approximately 40 physicians, up from seven. Some physicians are independent, for example, two independent cardiologists. The Hospital has a growing market share. Nanticoke recently met with Fitch and S&P and has been raised to "BB+ stable."

Mr. Eriksen asked Mr. Persinski to offer PNC's perspective.

Mr. Persinski explained that PNC is underwriting the proposed bonds. PNC worked with Nanticoke in 2002. The capital markets have improved over the last 18 months, with rates coming down and spreads increasing. The proposed current refunding is very opportunistic for Hospital. Annual savings of \$225,000 will be obtained, strengthening the overall credit profile of the NMH.

Dr. Palley asked what portion of the Hospital's revenue stream is Medicare and Medicaid. Mr. Rose explained that Nanticoke's gross receivables in 2010 from Medicare was 37%, with favorable reimbursement on both.

Ms. More asked about the S&P analysis, specifically, the main factors involving the unfunded pension liability. Mr. Rose led a discussion.

In the course of the discussion, Mr. Rose emphasized that Nanticoke is not borrowing additional funds in this transaction. In more directly addressing Ms. More's question, Ms. Jester added that she met with ING Bank, which had determined that NMH's pension liability is 73% funded, and they do not expect this percentage to decrease.

Dr. Palley asked questions concerning the elderly, Physicians Networks, and working with integrated health teams.

Mr. Rose answered by stating that Sussex County is growing and many patients are coming to Delaware from other states in retirement. The Hospital is focusing on preventative projects under Obama's health care plan. NMH has expanded its offices to other towns in the State such as Bridgeville and Georgetown and is dealing more with primary care physicians. Mr. Rose stated that in the future, NMH will be positioned to be more proactive and focusing on preventative programs and keeping patients out of the hospital.

Mr. Forbes asked Mr. Rose to discuss how physicians' referrals affect business.

Mr. Rose replied stated that it takes about 36 months for a new physician to grow net profits. Hospitals are not making money on the physician practice. Revenues are derived from the hospital side, not the practice side.

Mr. Forbes asked if Nanticoke was opening up more beds. Mr. Rose said that the Hospital currently has 99 beds, but is licensed for 139. The difference is a consequence of limits arising under Medicare laws.

Mr. Eriksen asked about the proposal for the "Rehab" in Middletown involving HealthSouth. Mr. Rose replied that an urgent care facility will soon open in Georgetown by the end of fiscal year and Seaford will follow thereafter.

Mr. Rose concluded by stating that he is not sure that more beds are currently needed in the State.

Mr. Eriksen then asked Ms. Abrantes to summarize her findings.

Following the general presentation and discussions, Mr. Eriksen asked Emily Abrantes, PFM, to note its position and make a recommendation to the Members based on the Hospital's financial condition. Ms. Abrantes and Mr. Quinn distributed to the Members copies of PFM's Approval Memorandum.

Ms. Abrantes stated that the refinancing of the 2002 bonds would be occurring during an efficient timeframe for the markets. The Debt Service Reserve Fund will support the bonds as in the 2002 transaction. Ms. Abrantes presented financial numbers contained in the PFM Approval Memorandum.

After presentation and discussion, Ms. Abrantes stated PFM's favorable recommendation regarding the proposed bond issuance.

Mr. Neaton asked about the impact of the Authority's requirement in this transaction that accredited investors be the bond buyers.

Mr. Persinski stated that the limitations being imposed in this transaction limit the investor pool. Mr. Persinski inquired of the Authority whether an improvement in the hospital's rating (to investment grade) would eliminate the \$100,000 denomination requirement.

Ms. More pointed out that even if that occurred, there is always a possibility of the hospital getting downgraded again, later.

Mr. Persinski indicated that while there are not many \$100,000 denominations in the market for deals of this nature, the limitation will not cause the deal to fail.

Mr. Eriksen emphasized that the Authority wants investors who understand the borrower and the structure of this transaction, so they need to be accredited investors.

Mr. Persinski asked how to make assurances regarding the investor requirements.

Mr. Quinn and Mr. Eriksen commented that PNC needs to put a process into place that will reasonably assure PNC that this requirement is met, and that PNC should certify this to the Authority. This will not be a burden to be undertaken by the Authority.

Ms. More suggested that in some circumstances, the \$100,000 limitation can be to the benefit of the parties involved.

Mr. Quinn summarized the discussions by stating that it will be the bond rating at the time of issuance that will determine the limitations in place. Future changes will not affect the limitations. There will be a \$100,000 (or above) denomination requirement. There will be an accredited investor requirement. The Authority will look for certification of that from PNC. In the secondary market, there is no accredited investor requirement.

Mr. Cheney inquired whether additional restrictions imposed by prospective investors would be a problem for the Authority. Mr. Quinn stated that this is a question for the Members to consider. Mr. Quinn advised the Members that it would seem reasonable that the Authority be satisfied with covenants and limitations that are at least as demanding and restrictive as those in the bond documents currently, but no less demanding or restrictive (i.e., no less favorable to the investors/lenders) than is being presented to the Members today.

Mr. Eriksen indicated that the Bond Committee could be granted authority to make these determinations at a future item, that is, regarding the question of approval of more restrictive covenants and limitations.

Mr. Quinn asked Ms. Abrantes if PFM's approval would be consistent with that approach. Ms. Abrantes replied in the affirmative. Mr. Quinn stated that PFM would be involved to review any changes and to advise the Bond Committee.

Ms. Abrantes indicated that these concerns could indeed happen in a deal of this nature and PFM could advise the Bond Committee.

At which point, Mr. Quinn advised Mr. Eriksen that he had reviewed the bond documents, which are still currently circulating in draft form for comments, and that he is comfortable with the bond documents in their current form subject to the changes discussed at this meeting. Mr. Quinn noted that the Authority's Bond Committee, to be appointed, will have further opportunity to consider any material changes to the bond documents, within the limitations of the Bond Committee's authority as set forth in the resolution to be proposed.

Whereupon, Mr. Quinn, Counsel to the Authority, presented to the Members the proposed resolution entitled "A BOND RESOLUTION APPROVING A PLAN OF FINANCING AND THE EXECUTION AND DELIVERY OF CERTAIN AGREEMENTS, APPOINTING A COMMITTEE TO APPROVE THE FINAL TERMS OF ONE OR MORE SERIES OF BONDS, AND PROVIDING FOR OTHER MATTERS IN CONNECTION THEREWITH," a copy of which had been previously circulated to the Members and which (with all changes requested by the Members) is attached hereto. Mr. Quinn summarized the proposed resolution for the Members and all in attendance.

Following Mr. Quinn's presenting of the proposed resolution to the Members, and further discussions, Mr. Eriksen called for a motion regarding the proposed resolution. Mr. Riddle advised the Chair that he was abstaining from the Members' consideration of the proposed resolution due to his relationships to NMH. Mr. Neaton, Ms. More, and Mr. Quinn clarified for the Members and the others in attendance the changes that would be reflected in the resolution being considered. Upon motion made by Mr. Neaton and seconded by Mr. Forbes, the Authority Members present, except for Mr. Riddle (abstaining), unanimously approved the resolution in the form attached.

There being no further business, upon motion made and seconded, Mr. Eriksen adjourned the meeting at approximately 2:55 p.m..

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CERTIFICATION

I, Desmond A. Baker, hereby certify that the foregoing is a true and correct copy of the Minutes of Meeting of the Delaware Health Facilities Authority held on May 7, 2013.

Desmond A. Baker
Secretary-Treasurer

ATTACHMENT

DELAWARE HEALTH FACILITIES AUTHORITY

RESOLUTION

A BOND RESOLUTION APPROVING A PLAN OF FINANCING AND THE EXECUTION AND DELIVERY OF CERTAIN AGREEMENTS, APPOINTING A COMMITTEE TO APPROVE THE FINAL TERMS OF ONE OR MORE SERIES OF BONDS, AND PROVIDING FOR OTHER MATTERS IN CONNECTION THEREWITH.

WHEREAS, by the Delaware Health Facilities Act (16 Del. Code Ann., §§ 9201-9222) (herein the “Act”), the Delaware Health Facilities Authority (the “Authority”), a public instrumentality of the State of Delaware (the “State”), was created for the purpose, inter alia, of issuing its revenue bonds in order to further the purpose and intent of the Act by benefiting the people of the State by, among other things, improving their health; and

WHEREAS, Nanticoke Memorial Hospital, Inc. (hereinafter the “Hospital”) has filed an application with the Authority dated April 5, 2013 (the “Application”) requesting that the Authority issue its revenue bonds in one or more series (the “Series 2013 Bonds”) the proceeds of which will be applied to: (i) refund the Authority’s outstanding Series 2002A and Series 2002B Revenue Bonds, Nanticoke Memorial Hospital Project (the “2002 Bonds”); (ii) fund any required debt service reserve fund; and (iii) to pay certain costs of issuance of the Series 2013 Bonds.

WHEREAS, the Hospital has executed and delivered an Expense and Indemnity Agreement as required by the Authority; and

WHEREAS, the Authority now desires to adopt this bond resolution to approve a plan of financing for the above-mentioned purposes, and to appoint a committee to approve the final terms of the Series 2013 Bonds to be issued by the Authority.

NOW, THEREFORE, BE IT RESOLVED by the Delaware Health Facilities Authority, as follows:

Section 1. The Authority hereby finds and determines:

(a) The purpose of the Act is to provide additional means for health care facilities to expand, enlarge and establish health care, hospital and other related facilities within the State; and

(b) By virtue of the Act, the Authority has been vested with all powers necessary and convenient to carry out the purposes and provisions of the Act, including the power to issue its bonds; and

(c) The Hospital is located within the State and is eligible for assistance from the Authority pursuant to the Act; and

(d) The Hospital will approve and authorize its appropriate officers to execute and deliver (i) the Loan Agreement (as defined below), (ii) the Bond Purchase Agreement (as defined below), (iii) the Official Statement, (iv) a Continuing Disclosure Agreement (as defined below), and (v) a Tax Certificate setting forth certain compliance requirements pursuant to the Internal Revenue Code of 1986, as amended (the “Tax Certificate”); and

(e) It is desirable and in the public interest for the Authority to issue and sell its revenue bonds for the purpose of effecting a financing substantially as described in the Official Statement (as defined below) related to the Series 2013 Bonds presented to the Authority in draft at this meeting; subject, however, to the approval of the Bond Committee hereinafter appointed and compliance with certain limitations set forth in clauses (i)-(vi) of Section 5(b) hereof.

Section 2. (a) In connection with the foregoing and subject to the approval of the Bond Committee hereinafter appointed and compliance with certain limitations set forth in clauses (i)-(vi) of Section 5(b) hereof, the Authority hereby determines to approve the plan of financing substantially as described in the Official Statement (as defined below); (b) the Authority hereby approves Ballard Spahr LLP as Bond Counsel; and (c) the Authority hereby acknowledges that Saul Ewing LLP will serve as independent legal counsel to the State in connection with the Series 2013 Bonds and certain of the matters described in these resolutions.

Section 3. In connection with the foregoing and subject to the approval of the Bond Committee hereinafter appointed and compliance with certain limitations set forth in clauses (i)-(vi) of Section 5(b) hereof, the Authority hereby approves the form and substance of each of the following agreements and documents, each as presented in draft form at this meeting: (i) the Trust Indenture dated as of June 1, 2013 (“Trust Indenture”) between the Authority and The Bank of New York Mellon Trust Company, as Trustee, (ii) the Loan, Mortgage and Security Agreement dated as of June 1, 2013 (“Loan Agreement”) between the Authority and the Hospital, and (iii) the Preliminary Official Statement and/or the Official Statement with respect to the Series 2013 Bonds (collectively, the “Official Statement”); and further approves the Tax Certificate in such form and of such substance as the Authority’s counsel shall determine and approve and recommend to the Bond Committee for approval; in all of the foregoing cases with all with such changes as may be appropriate to reflect the final terms of the Series 2013 Bonds as determined by the Bond Committee appointed in Section 5 hereof.

Section 4. The Authority hereby authorizes the distribution of the Official Statement by the Underwriter named therein (the “Underwriter”) to prospective purchasers of the Series 2013 Bonds.

Section 5. (a) Pursuant to § 9211(c) of the Act, the Authority hereby appoints a Bond Committee (the “Bond Committee”) which shall have the powers and authority (which is hereby delegated to the Bond Committee) as set forth in (b) below. The Bond Committee shall consist of: Rolf F. Eriksen, Lisa More, and William G. Neaton. In the event of the inability of any

member of the Bond Committee to act with respect to its obligations hereunder, the Chairman of the Authority may appoint a substitute therefor.

(b) The Bond Committee shall have the power and authority to (i) determine the terms of the Series 2013 Bonds, including, without limitation, the aggregate principal amount thereof, provided that the amount shall not exceed \$50,000,000; (ii) determine the maturity date not to exceed 50 years or other dates on which payment of the Series 2013 Bonds shall be due and the terms upon which the Series 2013 Bonds, or any portion thereof, may be redeemed, subject to the provisions of the Act; (iii) determine the underwriters' discount on the sale of the Series 2013 Bonds, provided that the discount shall not exceed \$10 per bond; (iv) determine the financial covenants and security for the Series 2013 Bonds, provided that such financial covenants and security shall be at least as restrictive on the Hospital and shall provide at least the same level of security for the bondholders of the Series 2013 Bonds as is provided in the agreements and documents presented in draft form at this meeting, all as determined and approved and recommended to the Bond Committee by the Authority's counsel and financial advisor; (v) determine the minimum denominations of the Series 2013 Bonds, provided that such amount shall not be less than \$100,000; (vi) determine the requisite form of certifications or other proof that, upon the underwriter's sale of the Series 2013 Bonds, the Series 2013 Bonds are acquired only by accredited investors; (vii) otherwise determine any of the matters set forth in § 9211 of the Act; (viii) award the Series 2013 Bonds to one or more purchasers for such price or prices and upon such other terms as the Bond Committee shall approve subject to the limitations set forth in this subsection (b); (ix) approve the execution and delivery of the Series 2013 Bonds; (x) approve the use of and the Authority's execution, delivery and performance of the following documents in substantially the form presented to and approved by the Authority at this meeting with such changes as the Bond Committee shall deem necessary or appropriate in connection with the issuance of the Series 2013 Bonds: (1) Trust Indenture, and (2) Loan Agreement; (xi) approve the form and substance of, and authorize the execution and/or delivery of, the following documents: (1) the Official Statement in final form (and any preliminary official statement that might be used in connection with the marketing of the Series 2013 Bonds); (2) the Bond Purchase Agreement by and among the Underwriter, the Authority, and the Hospital ("Bond Purchase Agreement"); and (3) with respect to the Authority's acknowledgement and approval, a Continuing Disclosure Agreement executed by the Hospital (the "Continuing Disclosure Agreement") both with terms consistent with the requirements of this resolution; and (xii) otherwise make such determinations and approve and authorize such documents (including documents with respect to credit enhancement, interest rate exchange, and interest rate setting of the Series 2013 Bonds) and actions as the Bond Committee shall, with the advice of the Authority's counsel and financial advisor, deem advisable, subject however, to the express limitations set forth in (i)-(vi) above. Compliance with the limitations and requirements set forth in clauses (i)-(vi) above must be confirmed by Public Financial Management, Inc., the Authority's financial advisor, as a condition to the Bond Committee's approval of the sale of the Series 2013 Bonds.

(c) Actions taken by the Bond Committee pursuant to the authority delegated above shall be taken upon the approval of a majority of the Bond Committee at one or more public meetings called for the purpose. Such meetings may be called by any member of the Bond Committee by written or telephonic notice given to each other member of the Bond Committee.

(d) The authority delegated to the Bond Committee by this Section 5 shall terminate and expire on December 31, 2013.

Section 6. The Series 2013 Bonds and interest thereon shall be limited obligations of the Authority payable solely out of the revenues and receipts to be derived pursuant to the Loan Agreement and the Trust Indenture and shall not constitute a debt or liability of the State or any political subdivision thereof, other than the Authority, nor is the faith and credit or the taxing power of the State or any political subdivision thereof, including the Authority, pledged to the payment of the principal of or the premium, if any, or the interest on the Series 2013 Bonds or other costs incident thereto.

Section 7. Subject to the approval of the Bond Committee and confirmation by Public Financial Management, Inc. of compliance with certain limitations as provided for in Section 5 hereof, the Chairman or Vice Chairman of the Authority, and each of the other officers of the Authority are hereby authorized and directed for and in the name of and on behalf of the Authority to do all acts, sign all documents required or provided for by the Bond Purchase Agreement, the Series 2013 Bonds, the Loan Agreement, the Trust Indenture, and to execute and deliver all such additional certificates, instruments and documents and pay all such fees, charges and expenses and to do all such further acts and things as may be necessary, desirable and proper to effect the purposes of the foregoing provisions of this resolution and to cause compliance by the Authority with all of the terms, covenants and provisions of such documents binding upon the Authority.

Section 8. This resolution shall take effect immediately upon its adoption.